



USAID
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CREDIT GUARANTEES YEAR IN REVIEW 2004



PROMOTING PRIVATE INVESTMENT IN DEVELOPMENT

TABLE OF CONTENTS

2004 YEAR IN REVIEW

Letter of Introduction	1
Introduction to USAID Credit Guarantees	2
Summary of Guarantee Activities	3
2004 Year in Review	3
Portfolio – Inception to Date: 1999–2004	3
Structure of USAID Credit Guarantees	4
A Global Guarantee for Microfinance	5
Regional Summaries	6
Africa	6
Asia and the Near East	8
Europe and Eurasia	10
Latin America and the Caribbean	12

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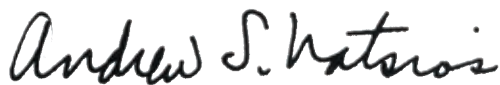
LETTER OF INTRODUCTION

USAID is working hard to promote local private investment for development projects in countries around the world. As part of this work, we are using our Development Credit Authority to provide partial credit guarantees to encourage local private-sector lending. Our efforts are gaining increased attention both in the donor community as well as the private sector.

The value of USAID's partial guarantees is clear. Over the past year, USAID's field missions have established 36 new guarantees with private financial institutions. These guaranteed loans are available to entrepreneurs in small and medium-sized businesses, to municipalities seeking to extend and improve needed services to their citizens, and to farmers working to increase their production and gain access to new markets. These true risk-sharing arrangements enable USAID's partners to lend up to \$278 million for development-related activities. By partnering with these lenders, we intend to demonstrate the economic viability of such investments to the local banking sector and other investors—stimulating additional financing for the years to come.

In Bulgaria, for example, a USAID guarantee supports financing for municipal energy-efficiency projects that will ensure warm classrooms for students in local public schools and keep medical facilities heated for patients and their visitors. In Zambia, USAID guarantees are reducing the risk to four local commercial banks and making it possible for the banks to lend to small farming operators. As part of a new public program to formalize the use of grains and maize as collateral, when Zambian farmers store their agricultural produce in a public warehouse, they receive a receipt that serves as proof of the quality, quantity and ownership. With the receipt, producers can offer their commodities as collateral to obtain a loan. We are particularly excited about the potential of these sorts of initiatives.

Since 1999, when we began using these guarantees, USAID has successfully signed 114 guarantee agreements with private sector financial institutions creating an additional \$855 million in new loans in 36 countries. These guarantees are a model for stimulating local private investment and the development of local capital markets. They are a practical extension of our technical assistance and training efforts. I am especially pleased to report that our missions are using partial credit guarantees as one very effective way to fulfill President Bush's commitment to bring clean water to the poor in Africa and the Middle East. With your help, we will continue in our efforts to unleash the productive capacity of private capital in the countries where USAID works.



Andrew S. Natsios
Administrator, USAID



Administrator Natsios

INTRODUCTION TO USAID CREDIT GUARANTEES

The United States Agency for International Development (USAID) is working with the private sector in developing countries to expand investment in local business and infrastructure activities. Since 1999, USAID's field offices, or "missions" have exercised an authority known as the Development Credit Authority (DCA)—to provide partial credit guarantees to financial institutions. These U.S. Government-backed guarantees are designed to promote new or expanded lending from the private sector for activities that have a positive developmental impact.

USAID Credit Guarantees:

- Partially guarantee loans, leases, bonds, letters of credit, or other debt instruments issued by private-sector lenders to creditworthy borrowers.
- Support new or increased financing for commercially-viable activities constrained by conditions such as excessively risk-averse lenders or overly-burdensome collateral requirements.
- Complement USAID's traditional assistance and training.

The benefits of USAID credit guarantees are striking:

Promote private-sector investment. In developing countries, a significant amount of private capital remains untapped. USAID's credit guarantees encourage financial institutions to lend that capital by guaranteeing up to 50 percent of the net loss on principal. When USAID shares the risk with a lender, new credit is made available for developmentally beneficial projects where financing was previously unavailable or inaccessible. The impact to borrowers, whether entrepreneurs or municipalities, includes access to crucial financial resources, an opportunity to establish new lending relationships and the potential success of a new project or business.



USAID credit guarantees encourage financial institutions such as this one in Africa to lend capital by guaranteeing up to 50 percent of the net loss on principal. The guarantees stimulate lending of crucial financial resources to borrowers in diverse sectors historically constrained by a lack of access to credit.

Build lending capacity and potential for sustainability. Credit guarantees provide local financial institutions with the security to extend credit and expand into new sectors. In this way, banks invest in their own capacity to lend to new and potentially profitable markets while increasing the credit available to those areas.

The guarantees are often used to supplement USAID's training and assistance. This assistance supports various groups in the value chain of business development, including entrepreneurs, businesses, and financial institutions, by strengthening their capacity to operate in the sector. USAID's assistance also provides crucial financial linkages between lenders and borrowers, complemented by the use of a partial guarantee to increase the availability and access to credit from private financial sources.

Maximize U.S. Government funding. By using credit from local private-sector sources to finance development activities, \$1 from the U.S. Government can leverage up to an average of \$25 in new loans.

SUMMARY OF GUARANTEE ACTIVITIES

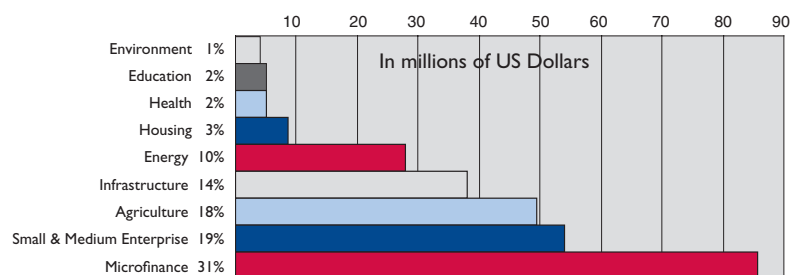
2004 Year in Review

In 2004, USAID established 36 guarantees in 22 countries, creating partnerships with financial institutions to provide local private capital for developmentally beneficial projects. The guarantees are often used in conjunction with training and assistance provided by USAID to build financial institutions' capacity to enter new markets and work with new borrowers. As USAID's guarantee portfolio grows, it demonstrates the impact private-sector investments can have on local development.

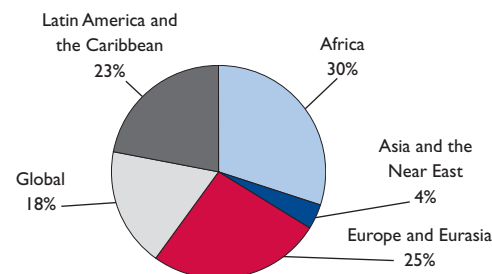
SUMMARY OF GUARANTEES

Number of Guarantees	36
Total Credit Made Available	\$278,733,334
Amount Guaranteed	\$102,916,667
Cost to USAID	\$10,285,880
Number of Countries	22

2004 CREDIT MADE AVAILABLE BY SECTOR



2004 CREDIT MADE AVAILABLE BY REGION (from amount noted above)



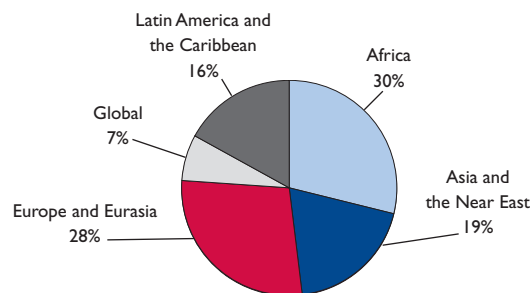
Portfolio – Inception to Date: 1999–2004

Over the last six years, the number of USAID guarantee agreements established with private-sector financial entities has grown tremendously. The global need for private-sector capital is demonstrated by the jump in the amount of credit financial institutions are agreeing to lend as well as the number of guarantees already in place over the relatively short period of time this guarantee facility has been operating. As a result of USAID's new Mission-driven risk-sharing partnerships, borrowers across a range of activities and regions are able to access credit that was not otherwise available.

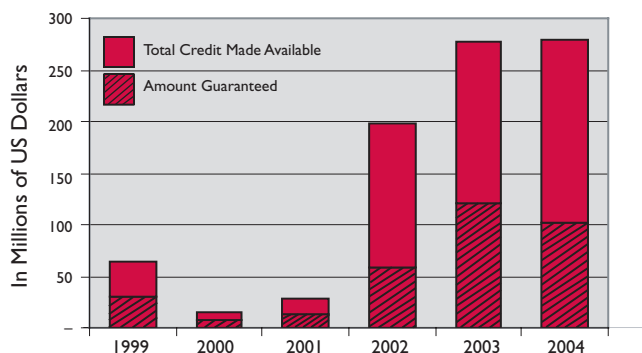
SUMMARY OF GUARANTEES

Number of Guarantees	114
Total Credit Made Available	\$855,799,334
Amount Guaranteed	\$335,249,667
Cost to USAID	\$28,106,780
Number of Countries	36

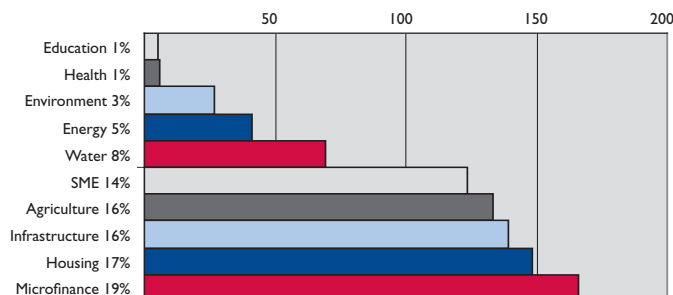
TOTAL CREDIT MADE AVAILABLE BY REGION (from amount noted above)



NEW CREDIT MADE AVAILABLE BY YEAR



TOTAL CREDIT MADE AVAILABLE BY SECTOR



STRUCTURE OF USAID CREDIT GUARANTEES

Factors common to each guarantee:

Design - flexible and can be tailored to the needs of a specific financial partner or project.

Management - developed and issued by USAID overseas offices, or “Missions” for projects that are financially viable, include prudent risk management and mitigation, and demonstrate a risk-sharing relationship between each private-sector partner and USAID.

Eligible sectors - can include any sector, from agriculture to health and microfinance to municipal finance.

Eligible lenders - non-sovereign financial institutions (foreign or domestic), capital market participants and investors.

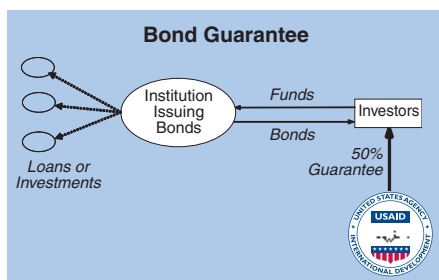
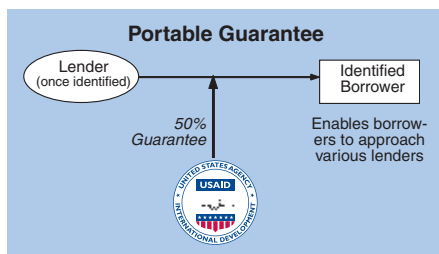
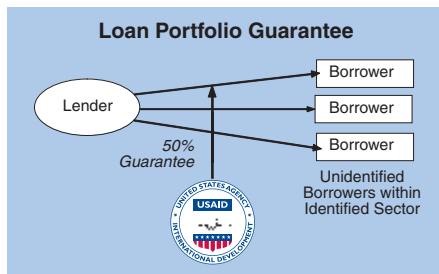
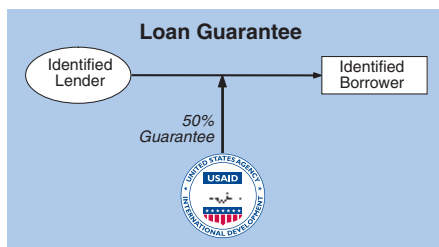
Eligible borrowers - private-sector enterprises and financial institutions, municipalities, or other sub-sovereign entities.

Terms - can cover loan lengths of 2 to 20 years; commercial terms in local currency and/or U.S. dollar; risk shared by USAID on up to 50 percent of a lender/investor’s net loss on principal.

Fees - based on risk with development needs taken into account.

Four types of USAID credit guarantees are available:

USAID GUARANTEE STRUCTURES



Loan Guarantees cover a single loan from a financial institution to a specific borrower for a particular activity. This guarantee is used when the borrower, lender, and use of the proceeds are known in advance, where the loan would not be made were it not for the presence of the guarantee.

Loan Portfolio Guarantees cover a pool of new loans from one financial institution to multiple borrowers in an area or sector specified by USAID. USAID shares the risk of default on the portfolio of loans to those borrowers, to encourage local financial institutions to extend credit to underserved sectors, activities and/or geographic areas.

Portable Guarantees are similar to loan guarantees except that the guarantee starts out with the borrower, not the lender. The lender has not yet been identified. A portable is used when a borrower cannot access credit due to excessively high interest rates, overly burdensome collateral requirements, or high level of risk associated with the requested loan as perceived by the financial institutions. If the borrower’s request for a portable guarantee is approved, they receive a commitment letter from USAID to present to potential lenders describing USAID’s intent to provide the lender, once identified, with a partial guarantee on its loan to the borrower. With the letter, the borrower has greater leverage in accessing affordable financing. Once a lender is identified, the portable becomes a loan guarantee to cover up to 50 percent of the lender’s risk on the loan to the borrower.

Bond Guarantees help ensure that investors in a bond receive the stated repayments from their investment. These guarantees are used to support the sale of various types of bonds by financial institutions, private-sector corporations, or sub-national entities. The funds generated from a bond offering are typically intended for specific activities such as local municipal infrastructure or utility projects, which require substantial up-front capital investments. A bond guarantee can also support longer and better loan terms for borrowers of the bond proceeds than would normally be available from a bank. Although USAID bond guarantees are typically used in countries with relatively advanced capital markets, they can also be used to encourage investment for the first bonds issued to develop a bond market in less sophisticated financial systems.

REGIONAL SUMMARY

Developing Sustainable Financial Linkages
For Microfinance Institutions Globally

Development Challenge – A global survey of 120 microfinance institutions (MFIs) by McKinsey & Company recently concluded that to reach 100 million borrowers (double the current level and 20 percent of the potential market), the microfinance sector will need \$9.4 billion over the next three years. Given limitations in donor funding—and the sector’s longer-term interest in establishing viable, sustainable linkages with the private sector—the bulk of new capital must come from commercial sources. These sources currently account for only 20 percent of funds available to the microfinance sector. McKinsey also found that a lack of commercial financing was the key growth constraint for more than 80 percent of MFIs surveyed.

Traditional financial sector institutions remain largely unfamiliar with the successes of microfinance. The views of the industry continue to be mired by false perceptions of the poor and their capacity to participate in formal credit systems. Deutsche Bank, NA believes an opportunity exists for astute investors to fill this gap in the market and participate as early entrants in this socially beneficial and growing market niche. Encouraging investors to do so will bring further market and financial discipline to MFIs—a critical step if these institutions are to become full-fledged financial intermediaries.

Guarantee Structure – Deutsche Bank has proposed to develop a cross-border debt financing facility—the Global Commercial Microfinance Consortium (GCMC)—to overcome the access-to-credit limitations faced by MFIs and attract private-sector investment. A USAID guarantee will foster linkages between the microfinance sector and domestic and international capital markets, by partnering the GCMC with USAID on a \$10 million loan that will support up to \$50 million in new lending to MFIs worldwide.

Development Impact – The goal of the Global Commercial Microfinance Consortium is to demonstrate the low level of financial risk and potential for profit. Viable linkages between MFIs and local and international commercial institutions will address capital access issues confronting MFIs. Unlike other investment funds, the facility seeks to draw in commercial investor interest, rather than donor funds. The GCMC strategy is to demonstrate the value of investing in this sector and create linkages between local commercial banks—a fundamental source of capital—and the expanding microfinance industry.

Global

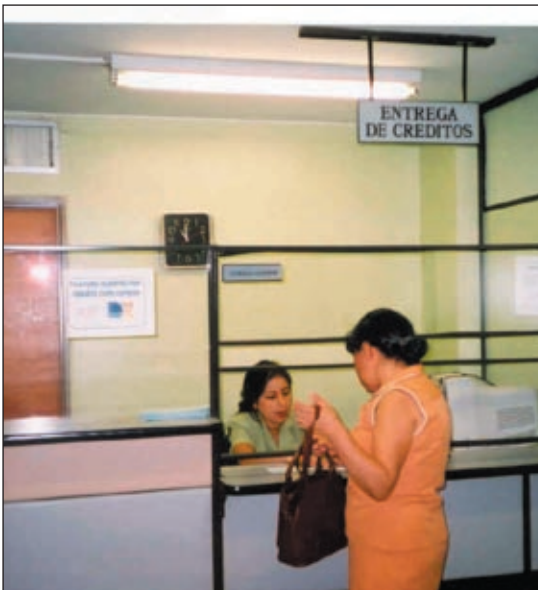


2004 SUMMARY OF GUARANTEES

Number of Guarantees	1
Total Credit Made Available	\$50,000,000
Amount Guaranteed	\$10,000,000

1999–2004 SUMMARY OF GUARANTEES

Number of Guarantees	2
Total Credit Made Available	\$60,000,000
Amount Guaranteed	\$11,000,000



Microfinance institutions such as the one pictured above can benefit from a USAID guarantee signed with the Global Commercial Microfinance Consortium. This guarantee will promote debt investment in small-end financial intermediaries.

REGIONAL SUMMARY



2004 SUMMARY OF GUARANTEES

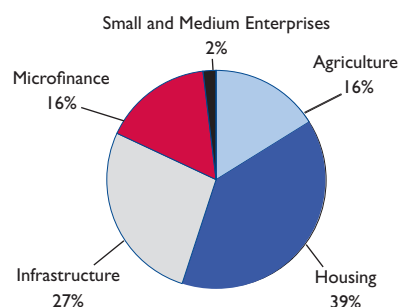
Number of Guarantees	10
Total Credit Made Available	\$82,833,334
Amount Guaranteed	\$31,966,667

Country (# of Guarantees)	Sector	Credit Made Available
Ethiopia (2)	Agriculture	\$18,000,000
Kenya	Agriculture	\$3,000,000
Rwanda	Agriculture	\$2,000,000
South Africa	Infrastructure	\$35,000,000
South Africa	Microfinance	\$8,333,334
Zambia (4)	Agriculture	\$16,500,000

1999–2004 SUMMARY OF GUARANTEES

Number of Guarantees	25
Total Credit Made Available	\$257,853,334
Amount Guaranteed	\$87,476,667
Number of Countries	8

GUARANTEES BY DEVELOPMENT AREA



Year in Review

USAID's defining conference, "Paving the Way Forward for Rural Finance," in 2003 foretold the Africa Bureau's achievements for fiscal year 2004: ten new USAID guarantee projects covering almost every USAID Mission in Anglophone Africa. These projects expand USAID's work in agriculture and small and medium enterprise development. With the help of an excellent Africa-based USAID network of private-sector and agricultural officers, innovations in the use of partial guarantees fostered further innovations. Uganda's models supporting agribusiness, for example, were quickly replicated in Ethiopia and Rwanda, while Zambia's guarantee-supported warehouse receipts program (which was heartily praised by the country's President) became a case study for other countries, including USAID's Missions in Uganda and Kenya. It is expected these trends will continue in fiscal year 2005, as outreach to the Missions continues and new programs are designed.

Warehouse Receipts Financing for Zambia

As a sector, agriculture provides a livelihood for many Zambians and has enormous growth potential in domestic consumption and for export. The Zambian government has focused on promoting agriculture to support the country's economic welfare.

Development Challenge – A significant issue faced by producers is the price risk of selling agricultural products at harvest time. By storing non-perishable commodities in certified commercial warehouses that issue receipts for each commodity, depositors (farmers, millers, traders) can choose to sell their goods earlier or later; taking advantage of higher prices in the off-season.

Despite the potential for higher profits through a warehouse receipt system, the deferred revenue poses a challenge for farmers who need immediate access to cash post-harvest. Certified receipts offer a solution by serving as collateral for a loan. Receipt-based financing is not a new concept, but Zambian financial institutions were unaccustomed to it and reluctant to lend against them.

Guarantee Structure – To encourage lending using warehouse receipts, USAID provided credit guarantees to four local commercial banks. The guarantees cover principal on up to \$16.5 million in new loans, increasing the capital available to farmers and agribusinesses. In addition, technical assistance builds the banks' capacity to respond to market demand, and supports farmer sensitization and training, warehouse management instruction, certification, and grades and standards testing—to ensure warehouses are properly managed and commodities are securely stored.

Developmental Impact – Farmers and traders can now leverage stored commodities into cash, allowing them to access to financing for supplies or additional stock. With local banks entering new rural markets and agricultural producers gaining greater control over the timing and price of the sale by storing rather than selling their

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grain at harvest time, the shift benefits smaller farmers. Zambian President Levy Mwanawasa stressed the importance his government places on agriculture as the “engine” for the country’s economic recovery and commended the U.S. Government for “deciding to bring the Development Credit Authority facility, through USAID, to Zambia.” President Mwanawasa sees USAID credit guarantees as an excellent way to stimulate commercial bank lending for development in agriculture.

Banking for the Masses in South Africa

Development Challenge – In South Africa, retail banking is dominated by four big financial institutions. Despite their presence, a recent survey by the United Kingdom’s Department for International Development found that over three-quarters of low-income South African adults, who account for approximately 65 percent of the adult population, do not have bank accounts.

A small but ambitious bank, Capitec aims to change all that. Capitec sees an opportunity for smaller financial-sector players to snatch market share and intends to become a full-fledged retail bank to the under-banked to fill the gap. A banking license allows Capitec to collect deposits as part of its banking operations and with roughly \$106 million in assets and 250 branches, the bank has become a serious contender in the low-income financial market. As of December 2004, Capitec’s stock out-performed every other stock in the financial sector.

Guarantee Structure – Given Capitec’s objective to increase its banking services to low-income groups, USAID recognized that long-term growth was contingent on access to private-sector credit. To help Capitec secure financing, USAID provided a guarantee for a five-year US\$8.3 million loan from Futuregrowth, a South African investment trust.

Development Impact – The loan from Futuregrowth represents Capitec’s first from the private sector and enables the bank to take an important step in achieving its goal to provide—on a large scale—a wide range of financial services to South Africa’s low-income population. “This is an innovative program and a practical way of encouraging South Africans from lower- and middle-income households to benefit from savings and lending products,” said Frederick W. Schieck, USAID’s Deputy Administrator. To date, loan proceeds have been used for branch construction and to purchase ATMs, computer software and furnishings, though the bank expects to use the bulk of the loan proceeds to fund new, longer-term instruments (starting with 60- and 90-day terms).

USAID and Futuregrowth expect the guarantee will help demonstrate the viability of lending to commercial financial service providers targeting the low-income market in South Africa. From the date the guarantee was established, Capitec’s client base has expanded from 18,104 to 60,856 and its loan book has grown by 20 percent. Savings and loan products are now available to South Africans who never had the benefit of banking services before.



USAID guarantees signed with four Zambian commercial banks encourage lending to farmers using warehouse receipts as collateral.



From left to right: Michiel Le Roux, CEO of Capitec; Frederick W. Schieck, USAID’s Deputy Administrator; and Alberto Bottega, Deputy Chairman of Futuregrowth congratulate one another at the guarantee signing ceremony in Khayalitsha, South Africa. USAID’s strategic partnership with Futuregrowth and Capitec received significant local media attention.

Asia and the Near East

REGIONAL SUMMARY



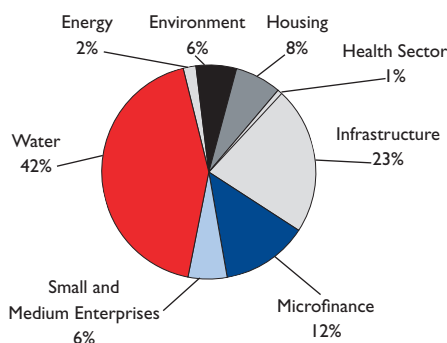
2004 SUMMARY OF GUARANTEES

Number of Guarantees	1
Total Credit Made Available	\$10,000,000
Amount Guaranteed	\$5,000,000
Number of Countries	1

1999–2004 SUMMARY OF GUARANTEES

Number of Guarantees	24
Total Credit Made Available	\$161,046,000
Amount Guaranteed	\$74,823,000
Number of Countries	6

GUARANTEES BY DEVELOPMENT AREA



Moroccan microentrepreneurs such as this wool worker will benefit from a USAID guarantee provided to Société Générale Marocaine des Banques. The guarantee catalyzes lending to Moroccan microfinance institutions for on-lending to creditworthy microentrepreneurs.

Year in Review

Bank Lending to Microfinance Institutions in Morocco

Development Challenge – In the early 1990s, USAID-funded studies revealed a significant lack of financial services to low-income households in Morocco, despite a well-developed banking system. Financial institutions were wary of poor peoples' ability and willingness to repay loans, women as creditworthy borrowers, the feasibility of solidarity lending, and the demand for very small loans.

Over the last decade, USAID/Morocco and several Moroccan financial institutions have made significant improvements in the financial services available to the poor—increasing public understanding and acceptance of microfinance as an established part of the banking sector. Additional improvements help enhance the policy and regulatory environment, as well as promote best practices through targeted technical assistance to Morocco's leading microfinance institutions (MFIs).

Since the creation of Morocco's first MFI in 1996, the industry has grown considerably, and the potential for further expansion is significant. Despite the growth of this sector, financing remains limited, with commercial banks, in particular, requiring excessive collateral and high interest rates.

Guarantee Structure – USAID/Morocco is providing a 50 percent guarantee to one of Morocco's largest commercial banks, Société Générale Marocaine des Banques (SGMB), to encourage SGMB to make up to \$10 million in loans to Moroccan MFIs. While SGMB is aware of the potential opportunities in lending to MFIs, the lack of credit histories discouraged it from entering the sector. The guarantee enables SGMB to share the risk with USAID and reduce the potential for loss on loans to a relatively new part of the financial sector.

Development Impact – MFIs will use the funds to make new loans to creditworthy microenterprises in Morocco, enabling the MFIs to grow their loan portfolios while serving an expanding client base of micro entrepreneurs. As a result, the guarantee provides the bank with first-hand experience of microfinance institutions and their financial viability, thus supporting, by extension, a large group of micro entrepreneurs. The guarantee enables SGMB to develop a credit history with and understanding of the MFIs, and, potentially, to develop SGMB's willingness and ability to continue lending beyond the term of USAID's guarantee.

Strengthening the Private Sector in Cambodia

This guarantee, the last to be established as part of USAID's previous credit guarantee program, is helping small and medium-sized businesses access credit.

Development Challenge – With more than 200,000 young people joining the Cambodian labor market every year, business growth and expansion are crucial to create jobs and alleviate poverty. Business-sector development relies on the availability of long-term credit, which is not readily accessible in Cambodia.

Guarantee Structure – To address some of these limitations, the International Finance Corporation (IFC), USAID, and Canadia Bank, Cambodia's largest private commercial bank, signed two complimentary agreements aimed at strengthening Cambodia's businesses.

Under the terms of the first agreement, the World Bank's private-sector arm, the IFC, will lend up to \$5 million toward Canadia's new mortgage loan product. Additional funds will be provided to train bank staff as well as small and medium-sized businesses and related organizations. Under the terms of the second agreement, USAID established a loan portfolio guarantee with Canadia to complement the IFC's assistance. The agreement created a 50-50 risk-sharing partnership between Canadia and USAID on up to \$5 million in new loans from the bank to micro, small and medium-sized businesses, and microfinance institutions.

Development Impact – The complementary agreements between Canadia and the IFC and USAID focus on developing private-sector businesses. IFC's training and technical assistance supports the bank's entry into new markets and new loan products. USAID's guarantee, a first for Cambodia, will stimulate access to credit for micro, small and medium-sized enterprises and microfinance institutions. U.S. Ambassador Charles Ray noted that "[the potential rewards for Cambodia are significant]." "The success of these programs can go a long way toward broadening access to financial services and providing the kind of financial sector that all Cambodians deserve."



From left to right Charles Ray, U.S. Ambassador; Pung Kheav Se, CEO of Canadia Bank; and Jonathon Addleton, Director of USAID/Cambodia at the USAID guarantee signing ceremony. USAID's guarantee complements the IFC's training and assistance programs.

Donor Collaboration for Clean Water

While the Philippines is seemingly endowed with abundant water resources, there is a looming water crisis in urban areas. Centralized sewage and treatment facilities cover only part of the capital, Manila, while rural areas are almost entirely void of piped, clean water.

Now, for the first time, private funds are being mobilized to initiate water and sanitation projects in rural Philippine communities. At a recent meeting between the Japan Bank for International Cooperation (JBIC), USAID, and the Development Bank of the Philippines (DBP), a memorandum of understanding was signed with private sector-led Local Government Unit Guarantee Corporation (LGUGC) for a syndicated loan to jumpstart part of an existing long-term water-related program.

The Municipal Water Loan Financing Initiative (MWLFI) is a pilot to mobilize private-sector investment for water supply and sanitation. Eligible projects will be financed through the program between JBIC and DBP. DBP will fund up to 50 percent of project costs, the other 50 percent will come from the private sector. The funds will be guaranteed by LGUGC via a partial guarantee from USAID.

At the signing ceremony, JBIC chief representative Osamu Murata noted that the initiative represents the first collaboration between JBIC and USAID, and their efforts to support Clean Water for People, a joint endeavor between Japan and the United States launched in 2002 to provide safe water and sanitation, improve watershed management and raise water output for the world's poor. "At long last", Murata noted, "we were able to realize it here in the Philippines by obtaining strong support and active participation from our local partners for utilizing their current facilities and structuring a co-financing scheme."

DBP president and chief executive officer Reynaldo G. David said the increasing role played by the private sector in bulk water supply and management of water services could diminish the need to rely exclusively on government projects. "The signing is a major first step toward attaining sustainable water for everyone."

Europe and Eurasia

REGIONAL SUMMARY



2004 SUMMARY OF GUARANTEES

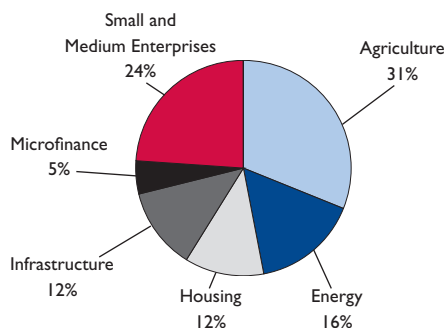
Number of Guarantees	11
Total Credit Made Available	\$71,000,000
Amount Guaranteed	\$32,000,000

Country (# of Guarantees)	Sector	Credit Made Available
Bulgaria	Energy	\$10,000,000
Croatia	Agriculture	\$10,000,000
Georgia	Energy	\$3,000,000
Kazakhstan	Energy	\$15,000,000
Kyrgyzstan	Water	\$1,000,000
Moldova (2)	SME	\$15,000,000
Russia (2)	SME	\$14,000,000
Ukraine (2)	Infrastructure	\$3,000,000

1999–2004 SUMMARY OF GUARANTEES

Number of Guarantees	32
Total Credit Made Available	\$238,500,000
Amount Guaranteed	\$101,250,000
Number of Countries	11

GUARANTEES BY DEVELOPMENT AREA



Year in Review

Fiscal year 2004 was a very good year for the Europe and Eurasia (E&E) region; new countries received USAID guarantees, public/private-sector partnerships were solidified, and innovative financial products were designed. These activities reflect growing interest in the use of guarantees to further local development and access to private sources of credit. One particularly significant event was the signing of a bond guarantee agreement with one of Georgia's leading private banks. This guarantee laid the groundwork for the country's first corporate bond issue. Proceeds from the issue will be used to finance energy efficiency and renewable energy investments throughout the country. In collaboration with the Asian Development Bank and a microfinance institution in Kyrgyzstan, USAID guarantees will enable villages in rural areas to access clean water more easily. Agriculture, micro, small and medium enterprise development, energy efficiency and improved access to water and sanitation services will all continue to be important themes in the coming year, as they have been in 2004.

Energy Efficiency Projects in Bulgaria Receive Financing

In Bulgaria, USAID's credit guarantees are facilitating energy-efficiency investments that yield a host of public benefits, including fostering a cleaner environment and tackling associated public health issues.

Development Challenge – Although Bulgaria is a large energy consumer, the country does not benefit from energy efficiencies that could be available to local municipalities that provide such services. While rising energy costs increasingly drain municipal resources, only recently has attention been paid to the significant savings and benefits of implementing energy-efficiency projects. Bulgaria's hospitals, schools, and other municipal facilities have not been well maintained, largely due to a lack of investment capital. Investments in infrastructure projects, like energy efficiency, can produce quick and tangible benefits for local governments and their citizens, including improved services, and, over time, lower energy expenditures.

Guarantee Structure – USAID negotiated a loan portfolio guarantee with the United Bank of Bulgaria (UBB) to reduce the perception of risk and disproportionate transaction costs associated with municipal finance, and to improve the potential for municipalities to benefit from improved service delivery. USAID's credit guarantee supports UBB in lending to commercially viable municipalities, municipal enterprises, and energy service companies, which did not have access to credit in formal financial markets. The guarantee covers 30 percent of the loss on principal for up to \$10 million in loans for energy-efficiency projects. In other words, USAID's guarantee of US\$3 million can leverage as much as \$10 million in loans from UBB. This facility is part of a broader initiative to address the lack of long-term lending for similar activities around the region. Additional agreements may be established with other banks following UBB's example.

Development Impact – By supporting energy efficiency, the loan portfolio guarantee also supports the reduction of harmful emissions—another USAID objec-

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tive in the region—and complements the Bulgaria Mission's long-term efforts to promote small and medium-sized enterprise development in the sector. Beneficiary entrepreneurs include energy auditors, contractors engaged in energy-efficiency retrofitting and construction, manufacturers of energy-efficient products, and small energy consulting companies.

Financing Agricultural Production in Croatia

As Croatia prepares for entry into the European Union, USAID is working with local farmers and small agri-businesses to improve the quantity and quality of their products to increase their competitiveness in Croatian and international markets.

Development Challenge – Despite Croatia's robust financial sector, small and medium-sized agribusinesses, including farmers and agricultural cooperatives, lack sufficient access to credit to drive growth. Burdensome collateral requirements increase the cost of financing for borrowers and, therefore, inhibit access to credit. As a result, they are less likely to make improvements in operational efficiencies and economies of scale that would help them compete with increasing food imports.

Facing the adoption of strict EU quality standards and integration into competitive EU markets, some large Croatian agri-processors have recognized their suppliers' need for financing and the limitations to credit imposed by local commercial banks. To aid their suppliers, the agri-processors are providing them with purchase contracts that will enable the farmers to access credit backed by future cash flows from the products purchased under these contracts. The processors are able to select suppliers with the best track record in production and management, supporting further growth and expansion for both the processor and their suppliers.

Guarantee Structure – To encourage involvement by a private commercial bank, USAID provided Erste Bank with a 50 percent guarantee on up to \$10 million in new loans to suppliers. The guarantee encourages Erste to extend credit based on the revenues generated from the new contracts. A large agri-processor, for example, could select a group of dairy farms and provide each with a contract to purchase its milk. On the strength of that contract, a dairy farm could approach Erste Bank to obtain credit for facility improvements, or to purchase livestock or equipment. In turn, the dairy farm agrees to have its sales proceeds assigned and sent directly to the bank to repay the loans. Any remaining funds are deposited into the dairy farm's account at the bank.

Development Impact – The result is more commercial credit available to farmers and agri-businesses, and the potential for increased quality, productivity, and therefore competitiveness, in both national and international markets.



United Bank of Bulgaria's guarantee has catalyzed lending to commercially viable enterprises and service companies for municipal infrastructure improvements such as this heat exchanger in Goma Orjahovitza.



A USAID guarantee facilitates lending to small Croatian producers, such as this dairy farm, for operational improvements or purchase of livestock and equipment to increase the quantity and quality of their products for sale in national and international markets.

Latin America and the Caribbean

REGIONAL SUMMARY



2004 SUMMARY OF GUARANTEES

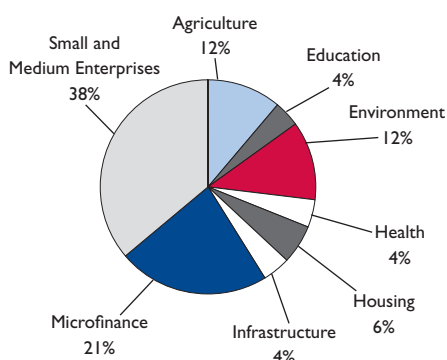
Number of Guarantees	13
Total Credit Made Available	\$64,900,000
Total Amount Guaranteed	\$23,950,000

Country (# of Guarantees)	Sector	Credit Made Available
Central America (2)	Environment	\$4,000,000
Ecuador (2)	Microfinance	\$12,400,000
Guatemala	Microfinance	\$5,000,000
Haiti (2)	SME	\$5,000,000
Jamaica	Housing	\$8,500,000
Nicaragua (2)	Health	\$5,000,000
Nicaragua (2)	SME	\$20,000,000
Panama	Education	\$5,000,000

1999–2004 SUMMARY OF GUARANTEES

Number of Guarantees	31
Total Credit Made Available	\$138,400,000
Amount Guaranteed	\$60,700,000
Number of Countries	9

GUARANTEES BY DEVELOPMENT AREA



Year in Review

The overarching theme for guarantees in the LAC region in fiscal year 2004 is innovation. USAID missions focused on using guarantees in new sectors to stimulate product development and support trade initiatives. A USAID guarantee facilitated the first bond issuance for a microfinance institution (MFI) in Guatemala. The developmental impact is a dramatic reduction in the cost to the MFI and an extension of the maturity date for those loans. These savings could be passed along to microentrepreneurs to access longer-term financing at a lower cost. In Nicaragua, USAID supports greater access to finance for small health clinics through loan portfolio guarantees. The impact will be more sustainable investment available to the under-served sector. This is the first health sector guarantee in the region and has stirred much interest among development professionals. A number of USAID missions in the region have also employed guarantees to support the negotiation and successful implementation of free trade agreements. The guarantees have ranged from improving the capacity of Panama's labor force by introducing student loans to facilitating access to credit in key industries with export potential. In addition to innovative partnerships with the local private sector, USAID missions in the region continue to strengthen their relationships with partner financial institutions to improve communication, stimulate utilization of existing guarantees, and enhance the overall developmental impact of USAID guarantees.

Jamaicans Gain Title to Land and Reconstruction Loans

In Jamaica, as part of USAID's response to Hurricane Ivan, a credit guarantee is helping a private financial institution expand its services at attractive terms to previously neglected market segments.

Development Challenges – Poor Jamaicans are frequently excluded from private financing because they lack significant assets to provide as collateral. The Government of Jamaica (GOJ) has realized that the lack of formal land title among Jamaica's poor is a significant barrier to growth and prosperity, especially for the poor. The GOJ has launched a wide-reaching campaign to verify property ownership so that land owners can obtain formal title and present it as a verifiable asset. The verification of title by the GOJ is free; however, the legal costs associated with obtaining the certificate of title are not. Many poor Jamaicans, who are identified as having legal right to their land title, are not able to obtain title because they cannot afford the associated legal fees.

Hurricane Ivan struck Jamaica on September 16, 2004, devastating buildings and properties across the island. Those affected needed financing at favorable terms to re-build their businesses, homes, and lives. The impact of the hurricane, however, curtailed lending by many of Jamaica's financial institutions as potential borrowers no longer had homes, jobs or businesses and therefore no collateral to offer for a loan that would help them rebuild. As a result, just when credit was needed most both to help the people and the country recover, it wasn't available.

Guarantee Structure – USAID is stimulating the availability of new loans through a partnership with Jamaica National Building Society (JN) that will support two distinct activities. The first is a new loan product that will offer small loans to low-income Jamaicans to cover the cost of obtaining title to their land. With the guarantee, once the GOJ has verified ownership, JN will provide loans of approximately US\$ 700 to

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Latin America and the Caribbean

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help eligible households bridge the financial gap to finalize the necessary paperwork to obtain the title. The second activity will increase access to credit for micro, small, and medium-sized businesses affected by Hurricane Ivan.

Developmental Impact – JN's new land title loan product will be the only one available on the market to facilitate the conversion of property from an informal asset into a working asset. The availability of this new product dovetails on Jamaica's national campaign to increase land titling for all of its citizens. In addition, with USAID's guarantee, JN is willing to extend loans at favorable terms to people whose homes or businesses were affected by Hurricane Ivan. The terms will include a six-month grace period for repayment to allow borrowers additional time to recover before starting to pay back their loans.

Students in Panama Receive Educational Loans

In 2004, only 22 percent of Panama's high school graduates enrolled in local universities—a striking figure given Panama's comparative advantage in the services, shipping, and finance/insurance sectors, which are dependent on an educated, bilingual workforce.

Development Challenge – On average, private university tuition in Panama is \$2,000 a year—a luxury many families cannot afford. For low to middle income students who cannot afford the tuition and are unable to secure a scholarship, the only option is the free public university. Students must find the means to pay for the cost of attending a private university. Further complicating their options are the universities' inability to satisfy the current need for scholarships. Without financing, many young Panamanians do not attend university or will have to juggle full-time employment to pay for intermittent education. A loan program with terms designed to meet the needs of students would allow many more Panamanians to attend private university. However, local financial institutions are reluctant to make loans to students who typically lack the necessary collateral, have no credit history, and are seen as unable to repay their debt.

Guarantee Structure – USAID/Panama has extended a guarantee to Banco Panameno de la Vivienda (Banvivienda) to stimulate the development of a loan product for students attending Universidad Interamericana de Panamá (UIP). The guarantee will enhance a pilot program to develop a private-sector student loan product. Banvivienda will extend up to \$5 million in loans to UIP's students. UIP will then set aside 20 percent of the tuition charged to students in the loan program into a reserve fund. The fund will take a first loss position. If it is depleted, USAID will share 50 percent of additional loss of principal with Banvivienda.

Intended Impact – USAID's guarantee will facilitate access to financing for lower-to middle-income students who are interested in pursuing a university-level education. The investment in professional training for careers that, in particular, complement the U.S.-Panama Free Trade Agreement will help Panama take full advantage of market strengths and develop new trade opportunities. USAID's partial guarantee is intended to demonstrate the profitability of student loans and encourage similar long-term private financing from other local commercial banks.



A USAID guarantee to Jamaica National Building Society will stimulate lending to poor Jamaicans for the purchase of productive assets and for improvements to micro, small, and medium enterprises affected by Hurricane Ivan.

LAHORA, NO TENGO EXCUSA PARA NO LLENAR ESTE ESPACIO!

EDUPRESTAMO

La Universidad INTERAMERICANA de Panamá, miembro de la Asociación Internacional de Universidades se facilita el ingreso a la universidad ofreciéndote un exclusivo sistema de préstamos educativos financiado por con el respaldo de USAID.

EDUPRESTAMO:

Con una rápida aprobación, hasta 6 años de plazo y muy cómodas mensualidades.

TÉRMINOS	
Mensualidad	Mensualidades desde:
5	\$ 17.00
5	\$ 19.00
6	\$ 22.00

* Se financian todos los programas de maestrías y doctorados.
* El financiamiento cubre el 100% de la colegiatura.
* No incluye matrícula ni otros conceptos.

Horarios de atención al público:
Lunes a viernes de 8:00 a.m. a 5:00 p.m. sábados y domingos 8:00 a.m. a 2:00 p.m.

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Sede principal: Panamá

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A USAID guarantee with Banvivienda supports student loan products for young Panamanians to attend the Universidad Interamericana de Panamá. The professional training students receive will allow Panamanians to take greater advantage of market strengths and trade opportunities.

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